



Final Minutes
Endowment Fund Investment Board Meeting
August 7, 2006

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on August 7, 2006. Vice-Chairman Gavin Gee called the meeting to order at 9:07 a.m. and recognized that a quorum was present.

Members Present:

Gavin Gee
Representative Bill Deal
Vaughn Heinrich
Richelle Sugiyama
Senator Brad Little

Members Absent

Dean Buffington
Tom Kealey
Susan Simmons
John Taylor

Staff Present:

Larry Johnson
Chris Halvorson
Andy Potter
Judy Shock

Legal Counsel

Julie Weaver

Guests

Eric Micek, RBC Dain
John Pickett, RBC Dain
Justice Burdick
Corrie Keller
Bill Reese
Ray Houston
Maria Barratt
Steve Allison
Kent Nelson (*arrived 10:40 a.m.*)

Hard copies of board materials were mailed and delivered four days prior to the scheduled board meeting, and a meeting notice was posted on the door of the EFIB office beginning August 2, 2006.

Board Meeting Minutes: *Approved*

Representative Deal made a motion that the minutes of the May 9, 2006 meeting be approved as submitted. The motion was seconded by Senator Little and approved unanimously.

Fund Performance – RBC Dain

Judges Retirement System – Mr. Pickett stated that the current status of the Judges' Retirement Fund is satisfactory based upon investment goals and policies outlined in its various mandates. He indicated that the overall portfolio is performing well, with all active managers above their benchmark. He also pointed out that the current allocation of the portfolio is within acceptable parameters outlined in the Investment Policy. Mr. Pickett recommended that the current asset allocation and the overall health of the Judges Retirement Fund be reviewed after the completion of the asset/liability study.

Justice Burdick noted that there will be a meeting to review the asset/liability study as soon as they can get the actuary and everyone together.

Senator Little inquired when the rules for the Judges Retirement Fund will be submitted to the IRS for approval. Justice Burdick stated that the IRS letter will be done in 30 days.

Mr. Micek said that there are no managers on the “watch list”, nor are there recommendations regarding managers or policy changes at this time.

Justice Burdick and Mr. Keller left the meeting at 10:00 a.m.

EFIB Strategic Plan

Mr. Johnson stated that the Legislature has asked all agencies to prepare a Strategic Plan on a new template this year. He has received feedback from both the State Insurance Fund and Judges’ Retirement system on the EFIB’s Strategic Plan. Mr. Johnson reviewed the mission, goals, and objectives with those present.

Senator Little suggested the deletion of certain tactical details from the Strategic Plan. He also recommended periodic review of progress in implementing the Strategic Plan.

The Board discussed the fiduciary responsibility of the Land Board and the EFIB and the need to develop a deeper understanding of the cash flow forecasting processed of the Department of Lands.

Mr. Johnson noted that because the State Insurance Fund does not have a fiduciary responsibility to their policyholders, as some insurance companies do.

Mr. Johnson presented key performance measures and benchmarks for FY 2007 (and beyond). The board discussed the pros and cons of using peer comparison as a benchmark.

Representative Deal made a motion to approve the Strategic Plan. The motion was seconded by Mr. Heinrich and approved unanimously.

Forecasting Timber Income

Mr. Johnson distributed a handout, “Revenues from Timber Sales” showing the forecast for each endowment. Mr. Johnson indicated the Lands Department has put out an RFP to appraise all land. The appraisal could be used as an evaluation tool and for consolidating endowment land ownership and should be completed by March 2007.

Spending Policy – Endowment Funds

The board discussed the Spending Policy under development by EFIB staff and the proposed levels of distributions for FY2008 that result from the proposed Policy. The Board also considered the distribution levels that result from application of the existing spending policy of 5% of the last three years Permanent Fund balance. There was also discussion of the pros and cons of transferring funds from the Earnings Reserve Fund to the Permanent Fund

Senator Little made a motion that the EFIB recommend the Land Board consider two options for FY 2008: the \$46.5 million, “Safer” scenario and a \$38.6 million option based on the existing Spending Policy of 5% of the last three years’ Permanent Fund balance; with the exception of Penitentiary and School of Science having the same lower distribution as specified in the “Safer” scenario*. The motion was seconded by Representative Deal and approved unanimously.

* Rev Scenario Comparison page 49a of the handout material

Vice-Chairman Gee requested a lunch recess at 12:15 p.m. *Guests: Bill Reese, Ray Houston, Maria Barratt, Steve Allison and Kent Nelson left the meeting.*

Vice-Chairman Gee called the meeting to order from lunch recess at 12:50 p.m.

Spending Policy - Capitol Permanent Fund

Mr. Johnson gave an overview of the Capitol Permanent Fund Spending Policy. The Fund was created to provide financial resources to facilitate the construction, repair, furnishing and improvement of the capitol building. The role

of the EFIB is to manage the assets of the Fund and set a spending policy that will preserve the long-term purchasing power of the Fund while providing a stable and predictable revenue stream.

Representative Deal made a motion to approve the Spending Policy for requested distributions of the Capitol Commission (Capitol Permanent Endowment Fund) at 5% of the previous three year's balances, subject to EFIB staff obtaining information from the Capitol Commission, regarding their budget needs; and from the Department of Lands, regarding future revenues - from the Capitol Permanent Fund's endowment lands. The motion was amended and seconded by Senator Little and approved unanimously.

Fund Performance and Evaluation – RBC Dain

Endowment Fund – Mr. Pickett stated that the current status of the Endowment Fund is satisfactory based upon the goals and policies outlined in its various mandates and that the overall portfolio is performing well. Most of the managers are above their benchmark and/or peer group for the 3-year trailing period, with the exception of Marvin & Palmer and Oppenheimer. Oppenheimer's performance for the previous quarter was poor, though their fiscal year performance places them in the 31st percentile. The board discussed possible alternatives/options should Oppenheimer's long-term performance continue to lag. Marvin & Palmer's performance continues to be below the index, both in the previous quarter and fiscal year. Mr. Pickett stated that Marvin & Palmer is performing better – close to medium and benchmark. He recommends that both Oppenheimer and Marvin & Palmer remain on the "watch list". If their performance continues to improve over the next few months, RBC will examine the possibility of these managers being removed from the watch list.

Mr. Pickett added that Mastrapasqua has had turnover in staff and has underperformed their benchmark for the previous quarter and fiscal year. Therefore, Mastrapasqua has been placed on the watch list.

State Insurance Fund – Mr. Pickett indicated that the current status of the State Insurance Fund is satisfactory based upon investment goals and policies outlined in its various mandates. The overall portfolio is performing well, with all active managers above their benchmark and/or peer group for the 3-year trailing period. The current allocation of the portfolio is within acceptable parameters outlined in the Investment Policy. He stated that there are no concerns at this time. After final approval from the State Insurance Fund, RBC and EFIB staff will begin a search process for an international equity manager.

Investment Policy

Endowment Fund - Mr. Johnson and Mr. Halvorson have edited the Investment Policy, with assistance from Ms. Weaver. There were only minor changes in the policy.

Mr. Heinrich made a motion to approve the revised Endowment Fund Investment Policy. The motion was seconded by Representative Deal and approved unanimously.

State Insurance Fund Investment Policy- Mr. Johnson stated that EFIB staff, with assistance from RBC Dain, is currently reviewing this policy. There are some issues under investigation, such as: the requirement for insurance companies to account for bonds on a buy-and-hold basis; the impact of interest rate changes on SIF's liabilities; the risks and benefits of shortening the duration during times of a flat yield curve; the pros/cons of equity commitments; the value of taking on credit risk during times of compressed credit spreads; and the addition of international equities.

Agency Policies/Legislation

Revised policies:

Overtime and Hours of Work Policy

Mr. Johnson presented revisions to reflect the statutory changes for the Manager of Investments' position in the Overtime and Hours of Work Policy.

Senator Little made a motion to approve the revised Overtime and Hours of Work Policy. The motion was seconded by Mr. Heinrich and approved unanimously.

Audit Policy

Per discussion at the May 9th meeting, the EFIB's Audit Policy was changed to permit immediate termination of an auditor and other minor adjustments.

Senator Little made a motion to approve the revised Audit Policy. The motion was seconded by Representative Deal and approved unanimously.

Sunshine Law reported - new lobbyist legislation

Mr. Johnson reported that as of July 1st 2006, new legislation went into effect requiring salesmen to certain state entities to register as lobbyists and make semi-annual reports, including expenditures of more than \$50 on an individual, such as, agency heads, board members and elected officials. Based on a letter from Ms. Weaver, it does not appear that the registration requirements apply to vendors dealing with the EFIB. The Board discussed whether to require vendors to register anyway, but decided to take no action.

Gift Log

Presently, the EFIB is logging all gifts to staff members greater than \$5. Board members are not covered by the Gift Log policy. There was discussion whether providing the log to board members imposed any special duty or obligation on board members, but Ms. Weaver stated that there is essentially no downside to board supervision of detailed matters.

Escheat/Unclaimed Property Legislation

Mr. Johnson described progress in recovering unclaimed property monies that should have been flowing to the Public School Endowment Fund but have not done so for the past ten years. Legislation is being drafted to transfer \$250,000-\$290,000 from the General Fund to the Public School Fund and ensure that future funds from escheated estates and unclaimed stock and dividends flow to the endowment. One issue outstanding is that if a claimant appears, would the EFIB have to return the monies? Ms. Weaver will research this issue.

Agency Budget for FY2008

Mr. Johnson presented a revised FY2007-FY2008 Budget Comparison (Allocation by Client). He indicated that there are no decision units for upcoming legislation.

Senator Little made a motion to approve the FY 2008 Agency Budget. The motion was seconded by Mr. Heinrich and approved unanimously.

EFIB Staff Reports

Mr. Johnson shared that the EFIB has installed a new security system. Monthly monitoring payments are \$20. An agreement has been made with the Department of Lands to expand our boardroom, with an increase in monthly rent in line with the funds approved by the board at the May meeting.

Mr. Johnson stated that additional analysis of cost drivers for the EFIB have shown that the endowments drive more agency overhead costs than are reflected in a chargeback based on assets under management. Therefore, the budget increases payments by the endowments and reduces them for the State Insurance Fund. It also includes an appropriate charge to the Judges' Retirement Fund for work done on their behalf.

Market Value, New Money Received Reports

Mr. Potter presented the Market Value and New Money Received Reports. For the full fiscal year 2006, New Money was ahead of projections in the Public School, but \$2.5 million short in Pooled Funds.

Expenses vs. Budget Report

Mr. Potter indicated that there was under spending in FY 2006 relative to budget of \$66,000. \$57,000 of that were in personnel costs.

Independence statement update

Mr. Johnson indicated that all board and staff members have signed the independence form and they have been filed in their personnel files. He shared that Mr. Gee submitted a letter regarding his wife's employment with Eide Bailly and his intention to withhold his participation in Board matters concerning that firm.

Audit update

Mr. Potter shared that the FY2006 close went well. Only one item from the Dept. of Lands is needed to complete the audit. Mr. Johnson indicated there will be an Audit Committee meeting August 30 to review the financial statements and the audit. A special board meeting will be held September 26 – 9:00 a.m.; for the full board to approve the financial statements.

2007 Meeting Schedule

The 2007 meeting schedule is as follows:

February 13

May 10

August 9

September 13 (approve financial statements)

November 13 (joint meeting with Land Board)

There was no Executive Session.

Representative Deal made a motion to adjourn the meeting. The motion was seconded by Ms. Sugiyama and approved unanimously. The meeting adjourned at 3:15 p.m.